

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Township of Clay
St. Clair County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2006**

Township of Clay

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Assets	16
Statement of Revenue, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Net Assets	19
Statement of Changes in Net Assets	20
Component Units:	
Statement of Net Assets	21
Statement of Activities	22
Notes to Financial Statements	23-41
Required Supplemental Information	42
Budgetary Comparison Schedule - General Fund	43-44
Budgetary Comparison Schedule - Major Special Revenue Funds	45-48

Township of Clay

Contents (Continued)

Other Supplemental Information	49
Nonmajor Governmental Funds:	
Combining Balance Sheet	50-51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	52-53



Plante & Moran, PLLC
River Ridge Corporate Center
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

Independent Auditor's Report

To the Members of the Township Board
Township of Clay
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Clay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Members of the Township Board
Township of Clay

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Clay. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moreau, PLLC

August 23, 2006

Township of Clay

Management's Discussion and Analysis

Our discussion and analysis of the Township of Clay, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Governmental activities include approximately \$120,000 of capital additions relating to improvements to the Fire Hall.
- The Township continued to advance fund a portion of its postretirement health care obligation by contributing a combined total of \$110,000 to a Municipal Employees' Retirement System account from the General, Police, and Water Funds.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Clay

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Two Years Ago	Prior Year	Current Year	Change from Prior Year in Dollars	as a Percent
Assets					
Capital assets	\$ 4,236,565	\$ 4,567,741	\$ 4,431,325	\$ (136,416)	(3.0)
Other assets	<u>4,973,616</u>	<u>4,587,766</u>	<u>4,604,886</u>	<u>17,120</u>	0.4
Total assets	9,210,181	9,155,507	9,036,211	(119,296)	(1.3)
Liabilities					
Long-term liabilities	1,701,477	1,664,032	1,407,366	(256,666)	(15.4)
Other liabilities	<u>364,600</u>	<u>556,247</u>	<u>552,916</u>	<u>(3,331)</u>	(0.6)
Total liabilities	<u>2,066,077</u>	<u>2,220,279</u>	<u>1,960,282</u>	<u>(259,997)</u>	(11.7)
Net Assets					
Invested in capital assets -					
Net of related debt	3,479,585	3,734,924	3,772,565	37,641	1.0
Restricted	596,555	406,573	527,154	120,581	29.7
Unrestricted	<u>3,067,964</u>	<u>2,793,731</u>	<u>2,776,210</u>	<u>(17,521)</u>	(0.6)
Total net assets	<u>\$ 7,144,104</u>	<u>\$ 6,935,228</u>	<u>\$ 7,075,929</u>	<u>\$ 140,701</u>	2.0

Township of Clay

Management's Discussion and Analysis (Continued)

				Change from	
				Prior Year	
	Two Years			in	as a
	Ago	Prior Year	Current Year	Dollars	Percent
Revenue					
General revenue:					
Property taxes	\$ 2,511,465	\$ 2,618,522	\$ 2,786,549	\$ 168,027	6.4
State-shared revenue	684,411	674,344	674,147	(197)	-
Investment earnings	103,664	2,549	173,932	171,383	6,723.5
Franchise fees	43,775	37,428	44,769	7,341	19.6
Other miscellaneous revenue	27,021	27,587	30,573	2,986	10.8
Program revenue:					
Charges for services	761,721	761,674	739,367	(22,307)	-
Operating grants and contributions	100,456	136,034	355,968	219,934	161.7
Capital grants and contributions	136,728	338,198	152,670	(185,528)	(54.9)
Total revenue	4,369,241	4,596,336	4,957,975	361,639	7.9
Program Expenses					
General government	941,827	965,594	984,464	18,870	2.0
Public safety	2,585,253	2,767,650	2,722,948	(44,702)	(1.6)
Public works	1,009,668	807,168	704,940	(102,228)	(12.7)
Community development	73,141	97,529	254,503	156,974	161.0
Recreation	62,200	73,000	64,250	(8,750)	(12.0)
Interest on long-term debt	66,417	94,271	86,169	(8,102)	(8.6)
Total program expenses	4,738,506	4,805,212	4,817,274	12,062	0.3
Excess (Deficiency) of Revenue					
Over Expenses	(369,265)	(208,876)	140,701	349,577	(167.4)
Transfers	-	-	-	-	-
Change in Net Assets	\$ (369,265)	\$ (208,876)	\$ 140,701	\$ 349,577	(167.4)

A review of the governmental activities shows an increase of approximately \$141,000 in net assets, or 2.0 percent, during fiscal year 2006. The unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) at June 30, 2006 decreased approximately \$18,000 from the prior year.

This reduction in unrestricted net assets is primarily attributable to the following factors:

- State-shared revenue remained consistent with the prior year since the Township is no longer receiving any statutory revenue from the State.
- Investment income experienced unrealized market reductions in the value of mutual funds during a portion of the year. The mutual funds were sold during the year and certificates of deposit were purchased. At year end, the Township's investments consisted primarily of certificates of deposit.

Township of Clay

Management's Discussion and Analysis (Continued)

- The Township funded \$167,000 of road costs through the St. Clair County Road Commission. While this is a decrease from the prior year amount of \$268,000, both years represent significant funding of costs that have historically been the responsibility of the Road Commission (State law intends for gas and weight tax to be shared with county road commissions to be used to pay for all road maintenance and preservation within townships).
- Township fringe benefit costs for health care and pension have decreased approximately \$20,000 from the prior year due to personnel reductions.

Property tax revenues, the single largest revenue for the Township, remained strong. A total of \$2.7 million was generated this year, of which the police and fire special assessment millages generated \$2.4 million. Charges for services, primarily inspection fees, generated \$1.4 million in 2006.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. The operations consist of the following: Water is provided to the Township residents via the City of Algonac; sewage treatment is provided by contracts with St. Clair County Department of Public Works. The following table shows, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years:

	Two Years Ago	Prior Year	Current Year	Change from Prior Year in Dollars as a Percent	
Assets					
Capital assets	\$ 18,621,035	\$ 18,124,891	\$ 17,830,276	\$ (294,615)	(1.6)
Other noncurrent assets	8,945,085	8,952,516	8,492,365	(460,151)	(5.1)
Current assets	<u>3,401,707</u>	<u>2,447,479</u>	<u>1,762,624</u>	<u>(684,855)</u>	(28.0)
Total assets	30,967,827	29,524,886	28,085,265	(1,439,621)	(4.9)
Liabilities					
Long-term liabilities	12,022,481	11,095,249	10,348,814	(746,435)	(6.7)
Other liabilities	<u>979,129</u>	<u>1,288,445</u>	<u>1,028,981</u>	<u>(259,464)</u>	(20.1)
Total liabilities	<u>13,001,610</u>	<u>12,383,694</u>	<u>11,377,795</u>	<u>(1,005,899)</u>	(8.1)
Net Assets					
Invested in capital assets -					
Net of related debt	10,017,714	10,235,643	10,557,712	322,069	3.1
Restricted	2,057,347	1,911,772	1,981,609	69,837	3.7
Unrestricted	<u>5,891,156</u>	<u>4,993,777</u>	<u>4,168,149</u>	<u>(825,628)</u>	(16.5)
Total net assets	<u>\$ 17,966,217</u>	<u>\$ 17,141,192</u>	<u>\$ 16,707,470</u>	<u>\$ (433,722)</u>	(2.5)

Township of Clay

Management's Discussion and Analysis (Continued)

	Two Years Ago	Prior Year	Current Year	Change from Prior Year	
				in Dollars	as a Percent
Charges for services	\$ 1,353,583	\$ 1,323,447	\$ 1,402,929	\$ 79,482	6.0
Operating expenses other than depreciation	1,262,955	1,362,960	1,464,435	101,475	7.4
Depreciation and amortization	<u>719,862</u>	<u>710,036</u>	<u>728,441</u>	<u>18,405</u>	2.6
Operating Loss	(629,234)	(749,549)	(789,947)	(40,398)	5.4
Interest income	218,701	101,269	287,672	186,403	184.1
Interest expense	(579,292)	(480,176)	(435,332)	44,844	(9.3)
Other expenses	(186,482)	-	-	-	-
Debt service charges	190,616	185,505	165,285	(20,220)	(10.9)
Capital contributions	<u>131,159</u>	<u>117,926</u>	<u>338,600</u>	<u>220,674</u>	187.1
Change in Net Assets	<u>\$ (854,532)</u>	<u>\$ (825,025)</u>	<u>\$ (433,722)</u>	<u>\$ 391,303</u>	(47.4)

The business-type activities experienced a 2.5 percent decrease in total net assets. This was primarily due to increased operating costs without a corresponding increase to operating revenue.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major governmental funds for 2006 include the General Fund, Police Fund, Mainland Fire Fund, Rubbish Collection Fund, and Harsen's Island Fire Fund. Both of the Township's Enterprise Funds are presented as major funds. The other supplemental information includes combining schedules that present the individual nonmajor funds.

The General Fund pays for most of the City's governmental services, with the exception of public safety and rubbish related costs. Police enforcement is recorded in the Police Fund and fire services are recorded in the Mainland Fire, Harsen's Island Fire, and Russell Island Fire Funds. The Township records rubbish collection costs and the related special assessment in the Rubbish Collection Fund. Police, fire, and rubbish services are supported by property taxes and/or special assessments.

Township of Clay

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Township amended the original budget by only \$60,000. Total revenue was approximately \$93,000 more than expected as result of grant revenue than was anticipated and higher than expected investment income. Actual General Fund expenditures were approximately \$28,000 more than budget due primarily to costs incurred during the implementation of a new accounting system and expenditures related to the removal of trees infected with the ash borer.

Township Fund Financial Highlights

General Fund - The General Fund experienced a change in fund balance that was approximately \$250,000 greater than in 2005. This increase was primarily due to an approximately \$148,000 increase in investment income and approximately \$100,000 decrease in payments to the County for road projects.

Police Fund - The Police Fund experienced a change in fund balance that was approximately \$120,000 greater than in 2005. This increase was primarily due to an increase of approximately \$100,000 in property tax revenue and a \$45,000 reduction to capital outlay expenditures.

Mainland Fire Fund - The Mainland Fire Fund experienced a change in fund balance that was approximately \$50,000 greater than in 2005. This increase was primarily due to an increase of approximately \$20,000 in property tax revenue and a reduction to capital outlay expenditures.

Harsen's Island Fire Fund - The Harsen's Island Fire Fund experienced a change in fund balance that was approximately \$20,000 greater than in 2005. This increase was primarily due to decreases in payroll and capital outlay expenditures.

Water Fund - The Water Fund experienced a change in fund balance that was approximately \$300,000 greater than in 2005. This increase was primarily due to increases in contributed revenue related to a new special assessment district for which construction was completed during the year ended June 30, 2006.

Economic Factors and Next Year's Budgets and Rates

As the State of Michigan continues to look for solutions to significant structural budget problems, revenue sharing continues to be under attack. However, the governor's proposed budget for 2006/2007 calls for a level funding for state revenue-sharing payments. Our community continues to weather the cuts in state-shared revenue in part due to very positive conservative actions of previous boards. In addition, the Township is no longer receiving statutory revenue-sharing payments, which is the portion that has experienced drastic cuts in past years. Our current board continues the conservative example of previous boards, while always keeping our obligations to current and future residents as our beacon. Our community continues to grow, and we use our strategic future forecasts to plan for and budget for future needs.

Township of Clay

Management's Discussion and Analysis (Continued)

As discussed above, we anticipate that the water and sewer rates will have to increase somewhat in 2007. We are in the process of evaluating the amount of increase that will be needed.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Clay

Statement of Net Assets June 30, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		
Assets				
Cash (Note 3)	\$ 3,927,192	\$ 1,308,435	\$ 5,235,627	\$ 413,764
Accounts receivable:				
Customer	-	343,075	343,075	-
Special assessments and other	458,555	2,044,090	2,502,645	-
Due from other governmental units	219,139	-	219,139	-
Inventories	-	111,114	111,114	-
Prepaid service contracts (Note 1)	-	4,320,276	4,320,276	-
Restricted assets (Note 8)	-	2,127,999	2,127,999	-
Capital assets (Note 5):				
Nondepreciable	70,000	32,562	102,562	-
Depreciable - Net	4,361,325	17,797,714	22,159,039	10,285
Total assets	9,036,211	28,085,265	37,121,476	424,049
Liabilities				
Accounts payable	24,688	166,479	191,167	-
Accrued and other liabilities	180,018	112,942	292,960	-
Performance bonds and deposits	91,816	-	91,816	-
Noncurrent liabilities (Note 7):				
Due within one year	256,394	749,560	1,005,954	-
Due in more than one year	1,407,366	10,348,814	11,756,180	-
Total liabilities	1,960,282	11,377,795	13,338,077	-
Net Assets				
Invested in capital assets - Net of related debt	3,772,565	10,557,712	14,330,277	10,285
Restricted:				
Law enforcement	91,838	-	91,838	-
Fire services	231,022	-	231,022	-
Rubbish collection	45,402	-	45,402	-
911 operations	113,085	-	113,085	-
D.A.R.E. operations	631	-	631	-
Street lighting	1,372	-	1,372	-
Road maintenance	43,804	-	43,804	-
Bond ordinance reserve	-	1,586,608	1,586,608	-
Equipment replacement reserve	-	395,001	395,001	-
Unrestricted	2,776,210	4,168,149	6,944,359	413,764
Total net assets	7,075,929	\$ 16,707,470	\$ 23,783,399	\$ 424,049

Township of Clay

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 984,464	\$ 35,002	\$ 20,000	\$ -
Public safety	2,722,948	150,156	105,771	152,670
Public works	704,940	542,700	5,747	-
Community and economic development	254,503	11,509	185,624	-
Recreation and culture	64,250	-	38,826	-
Interest on long-term debt	86,169	-	-	-
Total governmental activities	4,817,274	739,367	355,968	152,670
Business-type activities:				
Water	1,853,172	1,087,129	-	333,350
Sewer	773,986	478,996	-	5,250
Total business-type activities	2,627,158	1,566,125	-	338,600
Total primary government	<u>\$ 7,444,432</u>	<u>\$ 2,305,492</u>	<u>\$ 355,968</u>	<u>\$ 491,270</u>
Component Unit - Downtown Development Authority	<u>\$ 371,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (929,462)	\$ -	\$ (929,462)	\$ -
(2,314,351)	-	(2,314,351)	-
(156,493)	-	(156,493)	-
(57,370)	-	(57,370)	-
(25,424)	-	(25,424)	-
(86,169)	-	(86,169)	-
(3,569,269)	-	(3,569,269)	-
-	(432,693)	(432,693)	-
-	(289,740)	(289,740)	-
-	(722,433)	(722,433)	-
(3,569,269)	(722,433)	(4,291,702)	-
-	-	-	(371,085)
2,786,549	-	2,786,549	296,638
674,147	-	674,147	-
173,932	287,672	461,604	9,483
44,769	-	44,769	-
30,573	1,039	31,612	13,895
3,709,970	288,711	3,998,681	320,016
140,701	(433,722)	(293,021)	(51,069)
6,935,228	17,141,192	24,076,420	475,118
\$ 7,075,929	\$ 16,707,470	\$ 23,783,399	\$ 424,049

Township of Clay

Governmental Funds Balance Sheet June 30, 2006

	Major Special Revenue Funds					Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire		
Assets							
Cash (Note 3)	\$ 2,583,617	\$ 380,205	\$ 196,795	\$ 48,597	\$ 53,018	\$ 664,960	\$ 3,927,192
Special assessments receivable	108,065	-	-	-	-	350,490	458,555
Due from other funds (Note 6)	94,202	-	-	-	-	31,169	125,371
Due from other governmental units	219,139	-	-	-	-	-	219,139
Total assets	<u>\$ 3,005,023</u>	<u>\$ 380,205</u>	<u>\$ 196,795</u>	<u>\$ 48,597</u>	<u>\$ 53,018</u>	<u>\$ 1,046,619</u>	<u>\$ 4,730,257</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 12,636	\$ 3,150	\$ 715	\$ 3,195	\$ 3,451	\$ 1,541	\$ 24,688
Accrued and other liabilities	18,971	110,441	17,263	-	2,483	-	149,158
Due to other funds (Note 6)	31,169	94,038	-	-	-	164	125,371
Performance bonds and deposits	91,816	-	-	-	-	-	91,816
Deferred revenue (Note 4)	108,065	-	-	-	-	348,798	456,863
Total liabilities	262,657	207,629	17,978	3,195	5,934	350,503	847,896
Fund Balances							
Reserved for:							
Noncurrent receivable from Police Fund	94,038	-	-	-	-	-	94,038
911 operations	-	113,085	-	-	-	-	113,085
Unreserved - Undesignated	2,648,328	59,491	178,817	45,402	47,084	-	2,979,122
Unreserved - Reported in:							
Nonmajor Special Revenue Funds	-	-	-	-	-	115,454	115,454
Nonmajor Capital Project Fund	-	-	-	-	-	580,662	580,662
Total fund balances	<u>2,742,366</u>	<u>172,576</u>	<u>178,817</u>	<u>45,402</u>	<u>47,084</u>	<u>696,116</u>	<u>3,882,361</u>
Total liabilities and fund balances	<u>\$ 3,005,023</u>	<u>\$ 380,205</u>	<u>\$ 196,795</u>	<u>\$ 48,597</u>	<u>\$ 53,018</u>	<u>\$ 1,046,619</u>	<u>\$ 4,730,257</u>
Fund Balance - Total governmental funds							\$ 3,882,361
Amounts reported for governmental activities in the statement of net assets are different because:							
Capital assets used in governmental activities are not financial resources and are not reported in the funds							4,431,325
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures							456,863
Accrued interest payable on long-term debt is not recorded in the funds							(30,860)
Long-term liabilities are not due and payable in the current period and are not reported in the funds							(1,663,760)
Net assets of governmental activities							<u>\$ 7,075,929</u>

Township of Clay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Police	Mainland Fire	Rubbish Collection	Harsen's Island Fire	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue							
Property taxes	\$ 407,467	\$ 1,786,408	\$ 394,833	\$ -	\$ 192,646	\$ 5,195	\$ 2,786,549
Licenses and permits	108,333	-	-	-	-	-	108,333
Intergovernmental revenue:							
State sources	674,147	52,588	-	-	-	181,123	907,858
Local sources	38,826	-	-	-	-	-	38,826
Grant revenue	20,000	-	-	-	-	-	20,000
Charges for services	93,396	17,855	-	-	-	33,347	144,598
Investment income	119,770	11,646	7,561	330	1,461	33,164	173,932
Fines and forfeitures	-	18,649	-	-	-	-	18,649
Special and maintenance assessment	29,690	-	-	499,162	-	95,757	624,609
Other	32,623	29,624	18,303	2,087	4,559	38,496	125,692
Total revenue	1,524,252	1,916,770	420,697	501,579	198,666	387,082	4,949,046
Expenditures - Current							
General government	1,454,380	-	-	-	-	-	1,454,380
Police	-	1,920,915	-	-	-	-	1,920,915
Mainland Fire	-	-	249,985	-	-	-	249,985
Rubbish Collection	-	-	-	489,060	-	-	489,060
Drug enforcement	-	-	-	-	-	5,923	5,923
Harsen's Island Fire	-	-	-	-	118,767	-	118,767
Oaklawn Cemetery	-	-	-	-	-	37,362	37,362
Special lighting	-	-	-	-	-	1,259	1,259
Road maintenance	-	-	-	-	-	35,376	35,376
Russell Island Fire	-	-	-	-	-	3,713	3,713
South Channel Lights	-	-	-	-	-	185,624	185,624
Debt service	-	-	106,701	-	62,121	167,887	336,709
Total expenditures	1,454,380	1,920,915	356,686	489,060	180,888	437,144	4,839,073
Excess of Revenue Over (Under)							
Expenditures	69,872	(4,145)	64,011	12,519	17,778	(50,062)	109,973
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	60,000	60,000
Transfers out	(60,000)	-	-	-	-	-	(60,000)
Total other financing sources (uses)	(60,000)	-	-	-	-	60,000	-
Net Change in Fund Balances	9,872	(4,145)	64,011	12,519	17,778	9,938	109,973
Fund Balances - Beginning of year	2,732,494	176,721	114,806	32,883	29,306	686,178	3,772,388
Fund Balances - End of year	\$ 2,742,366	\$ 172,576	\$ 178,817	\$ 45,402	\$ 47,084	\$ 696,116	\$ 3,882,361

Township of Clay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	109,973
---	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		82,972
Donated assets do not provide current financial resources and are therefore not recorded in governmental funds; in the statement of activities, these donations are recorded as capital contributions		152,670
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds		(355,784)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		(83,396)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		244,057
Gain on sale of fixed assets is calculated based on the net book value of assets sold in the statement of activities; the proceeds from these sales are recorded as income in the governmental funds		(16,274)
Interest expense is recorded when incurred in the statement of activities		6,483

Change in Net Assets of Governmental Activities	\$	<u>140,701</u>
--	-----------	-----------------------

Township of Clay

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash (Note 3)	\$ 1,201,004	\$ 107,431	\$ 1,308,435
Customer receivables	158,205	184,870	343,075
Current portion of special assessments	176,735	-	176,735
Due from other funds	-	711	711
Inventories	92,439	18,675	111,114
Prepaid service contracts - Current portion (Note 1)	137,633	-	137,633
Total current assets	1,766,016	311,687	2,077,703
Noncurrent assets:			
Restricted assets (Note 8)	395,001	1,732,998	2,127,999
Special assessments receivable	1,867,355	-	1,867,355
Prepaid service contracts (Note 1)	4,182,643	-	4,182,643
Capital assets (Note 5):			
Nondepreciable	-	32,562	32,562
Depreciable - Net	10,094,118	7,703,596	17,797,714
Total noncurrent assets	16,539,117	9,469,156	26,008,273
Total assets	18,305,133	9,780,843	28,085,976
Liabilities			
Current liabilities:			
Accounts payable	88,773	77,706	166,479
Accrued and other liabilities	89,862	-	89,862
Due to other funds	711	-	711
Current portion of long-term debt (Note 7)	626,250	-	626,250
Total current liabilities	805,596	77,706	883,302
Current liabilities payable from restricted assets	-	146,390	146,390
Long-term debt - Net of current portion (Note 7)	8,946,250	1,402,564	10,348,814
Total liabilities	9,751,846	1,626,660	11,378,506
Net Assets			
Invested in capital assets - Net of related debt	4,224,118	6,333,594	10,557,712
Bond ordinance reserve	-	1,586,608	1,586,608
Equipment replacement reserves	395,001	-	395,001
Unrestricted	3,934,168	233,981	4,168,149
Total net assets	\$ 8,553,287	\$ 8,154,183	\$ 16,707,470

Township of Clay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
User charges	\$ 779,504	\$ 478,916	\$ 1,258,420
Tap-in fees	46,376	-	46,376
Hydrant rental	23,975	-	23,975
Other operating income	73,039	1,119	74,158
Total operating revenue	922,894	480,035	1,402,929
Operating Expenses			
Cost of water and sewage disposal	447,936	234,078	682,014
Salaries and wages	179,751	94,500	274,251
Fringe benefits	223,131	-	223,131
Meters, tools, and supplies	105,244	22,185	127,429
Administration fee	35,000	-	35,000
Utilities	21,791	9,411	31,202
Repairs and maintenance	6,027	3,654	9,681
Depreciation and amortization	413,825	314,616	728,441
Other operating expenses	56,029	25,698	81,727
Total operating expenses	1,488,734	704,142	2,192,876
Operating Loss	(565,840)	(224,107)	(789,947)
Nonoperating Revenue (Expenses)			
Investment income	209,080	78,592	287,672
Interest expense	(365,488)	(69,844)	(435,332)
Debt service charges	165,285	-	165,285
Total nonoperating revenue	8,877	8,748	17,625
Net Loss - Before capital contributions	(556,963)	(215,359)	(772,322)
Capital Contributions	333,350	5,250	338,600
Change in Net Assets	(223,613)	(210,109)	(433,722)
Net Assets - Beginning of year	8,776,900	8,364,292	17,141,192
Net Assets - End of year	<u>\$ 8,553,287</u>	<u>\$ 8,154,183</u>	<u>\$ 16,707,470</u>

Township of Clay

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 842,545	\$ 494,650	\$ 1,337,195
Payments to suppliers	(556,378)	(331,310)	(887,688)
Payments to employees	(402,882)	(94,500)	(497,382)
Other receipts	73,750	408	74,158
Net cash (used in) provided by operating activities	(42,965)	69,248	26,283
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments (principal and interest)	449,211	5,250	454,461
Collection of debt service charge	165,285	-	165,285
Purchase of capital assets	(273,820)	(14,276)	(288,096)
Principal and interest paid on capital debt	(1,001,577)	(189,648)	(1,191,225)
Net cash used in capital and related financing activities	(660,901)	(198,674)	(859,575)
Cash Flows from Investing Activities - Interest received on investments	209,080	78,592	287,672
Net Decrease in Cash and Cash Equivalents	(494,786)	(50,834)	(545,620)
Cash and Cash Equivalents - Beginning of year	2,090,791	1,860,502	3,951,293
Cash and Cash Equivalents - End of year	<u>\$ 1,596,005</u>	<u>\$ 1,809,668</u>	<u>\$ 3,405,673</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 1,201,004	\$ 107,431	\$ 1,308,435
Restricted assets (Note 8)	395,001	1,702,237	2,097,238
Total cash and cash equivalents	<u>\$ 1,596,005</u>	<u>\$ 1,809,668</u>	<u>\$ 3,405,673</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (565,840)	\$ (224,107)	\$ (789,947)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	413,825	314,616	728,441
Changes in assets and liabilities:			
Receivables	(7,310)	15,734	8,424
Due from other funds	-	(711)	(711)
Inventories	38,395	18,476	56,871
Due to other funds	711	-	711
Accounts payable	77,254	(54,760)	22,494
Net cash (used in) provided by operating activities	<u>\$ (42,965)</u>	<u>\$ 69,248</u>	<u>\$ 26,283</u>

Noncash Investing, Capital, and Financing Activities - There were no significant noncash, investing, capital, or financing activities during the year.

Township of Clay

Fiduciary Funds Statement of Net Assets June 30, 2006

	Employee Health Care Fund	Agency Fund
Assets		
Cash (Note 3)	\$ 110,000	\$ 203,628
Investments - Tax deferred annuities (Note 3)	<u>350,442</u>	<u>-</u>
Total assets	460,442	<u><u>\$ 203,628</u></u>
Liabilities		
Accrued and other liabilities	-	\$ 25,937
Due to other governmental units	-	30,637
Performance bonds and deposits	<u>-</u>	<u>147,054</u>
Total liabilities	<u>-</u>	<u><u>\$ 203,628</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 460,442</u></u>	

Township of Clay

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Trust Fund - Employee Health Care Fund
	<hr/>
Additions - Investment income	\$ 13,944
Deductions - Transfer to multiemployer trust	<hr/> 52,212
Net Decrease	(38,268)
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<hr/> 498,710
End of year	<hr/> \$ 460,442

Township of Clay

Component Units Statement of Net Assets June 30, 2006

	Downtown Development Authority
Assets	
Cash (Note 3)	\$ 413,764
Nondepreciable capital assets	<u>10,285</u>
Total assets	<u>\$ 424,049</u>
Net Assets	
Invested in capital assets - Net of related debt	\$ 10,285
Unrestricted	<u>413,764</u>
Total net assets	<u>\$ 424,049</u>

Township of Clay

Component Units Statement of Activities Year Ended June 30, 2006

			Net (Expense) Revenue and Changes in Net Assets
	Program Revenues		
	Charges for		
Expenses	Services		Total
Downtown Development Authority - Community and economic development	<u>\$ 371,085</u>	<u>\$ -</u>	\$ (371,085)
General revenues:			
Property taxes			296,638
Unrestricted investment earnings			9,483
Other income			<u>13,895</u>
Total general revenues			<u>320,016</u>
Change in Net Assets			(51,069)
Net Assets - Beginning of year			<u>475,118</u>
Net Assets - End of year			<u>\$ 424,049</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Clay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The Clay Township Building Authority is governed by a board that is appointed by the board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings. There was no activity in the Building Authority during the 2006 fiscal year.

Discretely Presented Component Units - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the board of trustees. In addition, the Authority's budget is subject to approval by the board of trustees. Complete financial statements can be obtained from Township of Clay at 4710 Pointe Tremble Road, Algonac, Michigan 48001.

Harsen's Island Transportation Authority - The Harsen's Island Transportation Authority was created to assist the transportation of people and goods between the mainland and Harsen's Island. The governing body, which consists of five individuals, is selected by the Township board of trustees. In addition, any budgets of the Authority will be subject to approval by the board of trustees. As of this date, the Authority has not begun any financial activities.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Clay Township Police Fund - The Clay Township Police Fund is used to account for the operations of law enforcement activity in the Township. Funding is provided primarily through a local property tax levy.

Mainland Fire Fund - The Mainland Fire Fund is used to account for the operations of firefighting activity in the Township. Funding is provided primarily through a local property tax levy.

Rubbish Collection Fund - The Rubbish Collection Fund accounts for the operations of the refuse disposal activities of the Township. Funding is provided primarily through special assessment.

Harsen's Island Fire Fund - The Harsen's Island Fire Fund is used to account for the operations of firefighting activity on Harsen's Island. Funding is provided primarily through a local property tax levy.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Other Employee Benefits Trust Fund - The Other Employee Benefits Trust Fund accounts for the activities of the employee benefit plan, which accumulates resources for other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$442 million for operations, \$411 million for police services, \$288 million for Mainland fire services, \$110 million for Harsen's Island fire services, and \$6 million for Russell Island fire services (a portion of which is captured by the DDA for the operations, police, and Mainland fire tax bases). Taxes levied consisted of .5755 mills for operating purposes, 4.35 mills for police services, 1.375 mills for Mainland fire services, 1.75 mills for Harsen's Island fire services, and .9 mills for Russell Island fire services. This resulted in approximately \$239,000 for operating, \$1,800,000 for police services, \$395,000 for Mainland fire services, \$182,000 for Harsen's Island fire services, and \$5,000 for Russell Island fire services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is generally allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Prepaid Service Contracts - Prepaid service contracts represent the Township's portion of various upgrades made to the City of Algonac's water plant for which the Township has no direct ownership interest. Payments are amortized over the deemed life of the water service contract with the City of Algonac.

Restricted Assets - The Township has contracts with the City of Algonac to set amounts aside in the Water Fund for maintenance, repair, and equipment replacement of the water system. The sewer ordinance requires amounts to be set aside for debt service on sewer system debt, and maintenance, repair, and equipment replacement of the sewer system. Amounts on deposit at the County are being held for the construction of the Township's sewer lines.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	20 years
Underground mains	50 years
Sewage treatment plant	50 years
Buildings and building improvements	20 to 50 years
Vehicles and equipment	3 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to not permit employees to accumulate earned but unused sick and vacation pay benefits at the end of the year. There is no liability for unpaid accumulated vacation and sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the Township supervisor and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." The budgetary comparison schedules (General Fund and major Special Revenue Funds) are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as adopted by the Township board is included in the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Township incurred total general government expenditures of \$1,444,200 in the General Fund, which was in excess of the amount budgeted of \$1,425,889. This was due to expenditures related to the implementation of a new accounting system and tree removal. The Township also incurred employee settlement expenditures of \$84,000 in the Police Special Revenue Fund that was not budgeted for. This settlement was previously reported as designated for contingent liabilities.

Township of Clay

Notes to Financial Statements June 30, 2006

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Beginning balance - Shortfall		\$ (462,281)
Building permit revenue		106,053
Related expenses:		
Direct costs	\$ 200,605	
Estimated indirect costs	9,544	
		<u>210,149</u>
Total construction code expenses		<u>210,149</u>
Ending balance - Shortfall		<u>\$ (566,377)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Township to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employee Health Care Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Township of Clay

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

The Township has designated one bank for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the State statutory authority as listed above.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township's deposit balance of \$7,457,926 included \$7,257,926 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had a bank balance of \$413,764, of which \$200,000 was covered by federal depository insurance and the remainder was uninsured.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy does not further limit its investment choices.

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Tax deferred annuities	\$ 460,442	A+	Standard & Poor's

Concentration of Credit Risk - The Township places no limit on the amount the Township may invest in any one issuer. More than 5 percent of the Employee Health Care Fund's investments are in AmerUs 10-year Multi Choice Annuities; these investments are 100 percent of the fund's total investments.

Note 4 - Deferred Revenue

The governmental funds have reported \$456,863 of deferred revenue in connection with special assessment receivables that are not considered to be available to liquidate liabilities of the current period.

Township of Clay

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Governmental Activities				
Capital assets not being depreciated - Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Capital assets being depreciated:				
Infrastructure	583,095	-	-	583,095
Buildings and improvements	3,867,309	121,069	-	3,988,378
Vehicles and equipment	3,208,094	114,573	125,535	3,197,132
Furniture and fixtures	64,995	-	-	64,995
Subtotal	7,723,493	235,642	125,535	7,833,600
Accumulated depreciation:				
Infrastructure	244,233	29,155	-	273,388
Buildings and improvements	1,399,956	103,037	-	1,502,993
Vehicles and equipment	1,563,510	219,026	109,261	1,673,275
Furniture and fixtures	18,053	4,566	-	22,619
Subtotal	3,225,752	355,784	109,261	3,472,275
Net capital assets being depreciated	4,497,741	(120,142)	16,274	4,361,325
Net capital assets	\$ 4,567,741	\$ (120,142)	\$ 16,274	\$ 4,431,325

Township of Clay

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Water Fund				
Capital assets not being depreciated -				
Construction in progress	\$ 19,448	\$ 258,947	\$ 278,395	\$ -
Capital assets being depreciated:				
Underground mains	12,704,818	278,395	-	12,983,213
Buildings	250,000	-	-	250,000
Vehicles and equipment	264,812	14,873	-	279,685
Subtotal	13,219,630	293,268	-	13,512,898
Accumulated depreciation:				
Underground mains	2,843,086	254,247	-	3,097,333
Buildings	65,000	5,000	-	70,000
Vehicles and equipment	242,002	9,445	-	251,447
Subtotal	3,150,088	268,692	-	3,418,780
Net capital assets - Water Fund	10,088,990	283,523	278,395	10,094,118
Sewer Fund				
Capital assets not being depreciated - Land	32,562	-	-	32,562
Capital assets being depreciated:				
Underground mains	9,800,988	-	-	9,800,988
Sewage treatment plant	5,328,495	-	-	5,328,495
Buildings	257,950	-	-	257,950
Vehicles and equipment	107,897	14,873	-	122,770
Subtotal	15,495,330	14,873	-	15,510,203
Accumulated depreciation:				
Underground mains	5,392,749	195,695	-	5,588,444
Sewage treatment plant	1,955,659	106,738	-	2,062,397
Buildings	67,067	5,159	-	72,226
Vehicles and equipment	76,516	7,024	-	83,540
Subtotal	7,491,991	314,616	-	7,806,607
Net capital assets being depreciated	8,003,339	(299,743)	-	7,703,596
Net capital assets - Sewer Fund	8,035,901	(299,743)	-	7,736,158
Net business-type activity capital assets	\$ 18,124,891	\$ (16,220)	\$ 278,395	\$ 17,830,276

Township of Clay

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Depreciation and amortization expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 73,826
Public safety	245,290
Public works	12,500
Community and economic development	24,168
Total governmental activities	<u>\$ 355,784</u>

Business-type activities:

Water	\$ 413,825
Sewer	314,616
Total business-type activities	<u>\$ 728,441</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Police Fund	\$ 94,038
Nonmajor Fund	General Fund	31,169
General Fund	Nonmajor Fund	164
Sewer Fund	Water Fund	711
		<u>\$ 126,082</u>

Interfund balances result primarily from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The balance due to the General Fund from the Police Fund results from the General Fund lending funds to the Police Fund for the construction of the police department building.

The details of the interfund transfer for the year ended June 30, 2006 are as follows:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor Fund	<u>\$ 60,000</u>

The above transfer from the General Fund to the Oaklawn Cemetery Fund was to provide funds for debt service expenditures in the current year and future years.

Township of Clay

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt

The Township of Clay issues bonds to provide for the acquisition and construction of major capital facilities. County contractual agreements and installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements:							
2003 Mausoleum term notes:							
Amount of issue: \$265,000	5.100%	\$22,307 -					
Maturing through 2013		\$222,157	\$ 222,178	\$ -	\$ 23,103	\$ 199,075	\$ 24,641
2003 Mausoleum term notes:							
Amount of issue: \$60,000	7.000%	\$4,692 -					
Maturing through 2013		\$50,923	51,147	-	4,909	46,238	5,323
Mainland fire truck term note:							
Amount of issue: \$271,837	3.770%	\$53,502 -					
Maturing through 2007		\$58,046	113,774	-	55,728	58,046	58,046
Harsen's Island fire truck and rescue boat term note:		\$37,550 -					
Amount of issue: \$287,688	4.360%	\$46,621					
Maturing through 2010			214,178	-	39,211	174,967	40,945
Harsen's Island airboat term note:							
Amount of issue: \$37,897	6.500%	\$12,452 -					
Maturing through 2007		\$13,006	25,540	-	12,536	13,004	13,006
Mainland fire boat term note:							
Amount of issue: \$206,000	4.050%	\$37,000					
Maturing through 2010		\$45,000	206,000	-	38,570	167,430	39,433
Special assessment bonds:							
2000 Special Assessment Bonds:							
Amount of issue: \$1,360,000	5.10% -	\$70,000 -					
Maturing through 2020	5.50%	\$75,000	1,075,000	-	70,000	1,005,000	75,000
Total governmental activities			\$ 1,907,817	\$ -	\$ 244,057	\$ 1,663,760	\$ 256,394

Township of Clay

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Water Fund							
Contractual obligations with St. Clair County:							
1998 Algonac Water Plant (through the Michigan Drinking Water Revolving Fund Program) Township portion is 62.5%							
Amount of issue: \$7,830,600	2.50%	\$218,750 -					
Maturing through 2020		\$302,500	\$ 3,918,125	\$ -	\$ 215,625	\$ 3,702,500	\$ 218,750
1999 Water System No. II-A (Refunding):							
Amount of issue: \$1,485,000	3.300% -	\$90,000 -					
Maturing through 2017	8.125%	\$110,000	1,175,000	-	90,000	1,085,000	90,000
Deferred amount on refunding			(97,500)	-	(7,500)	(90,000)	(7,500)
2002 Water Supply System No. II-A:							
Amount of issue: \$6,175,000	3.875% -	\$325,000					
Maturing through 2021	5.000%		5,200,000	-	325,000	4,875,000	325,000
Total Water Fund			10,195,625	-	623,125	9,572,500	626,250
Sewer Fund							
Contractual obligations with St. Clair County:							
1999 Sewage System No. I:							
Amount of issue: \$2,160,000	5.00% -	\$77,904 -					
Maturing through 2012	5.125%	\$101,708	657,856	-	82,232	575,624	86,560
2003 County Sewage Disposal System I Bonds:							
Amount of issue: \$3,000,000	3.375% -	\$33,250 -					
Maturing through 2023	4.600%	\$80,500	985,250	-	35,000	950,250	36,750
Total Sewer Fund			1,643,106	-	117,232	1,525,874	123,310
Total business-type activities			\$ 11,838,731	\$ -	\$ 740,357	\$ 11,098,374	\$ 749,560

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 256,394	\$ 81,335	\$ 337,729	\$ 749,560	\$ 415,553	\$ 1,165,113
2008	185,378	69,724	255,102	776,263	387,590	1,163,853
2009	190,650	60,881	251,531	782,341	358,794	1,141,135
2010	201,024	51,665	252,689	799,044	329,199	1,128,243
2011	107,043	42,171	149,214	807,958	298,771	1,106,729
2012-2016	438,271	130,708	568,979	3,786,333	1,037,166	4,823,499
2017-2021	285,000	30,960	315,960	3,239,375	333,329	3,572,704
2022-2023	-	-	-	157,500	7,287	164,787
Total	\$ 1,663,760	\$ 467,443	\$ 2,131,203	\$ 11,098,374	\$ 3,167,689	\$ 14,266,063

Township of Clay

Notes to Financial Statements June 30, 2006

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities		
	Water Fund	Sewer Fund	Total
Cash and investments:			
Contract with City of Algonac	\$ 53,314	\$ -	\$ 53,314
Equipment Replacement Fund	341,687	-	341,687
Bond ordinance requirement	-	1,702,237	1,702,237
Total cash and investments	395,001	1,702,237	2,097,238
Assets held at County	-	30,761	30,761
Total restricted assets	<u>\$ 395,001</u>	<u>\$ 1,732,998</u>	<u>\$ 2,127,999</u>

The contract with the City of Algonac and the Equipment Replacement Fund are restricted for maintenance, repair, and equipment replacement of the water system. The bond ordinance requirement is restricted for debt service on sewer debt and maintenance, repair, and equipment replacement of the sewer system. The assets held at the County for the Sewer Fund represent the Township's portion of the remaining cash maintained by the St. Clair County Department of Public Works for the 2003 St. Clair County Sewage Disposal System I bonds.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims and participates in the State Pool program of the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The State Pool program of the Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers substantially all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 3.91 percent to 9.99 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2006, the Township's annual pension cost of \$194,877 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3 percent to 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years. The December 31, 2005 actuarial valuation reflects a prospective gradual reduction in the amortization period for open divisions from 30 years to 25 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2006	2005	2004
Annual pension cost (APC)	\$ 194,877	\$ 224,062	\$ 156,244
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

Township of Clay

Notes to Financial Statements June 30, 2006

Note 10 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2005	2004	2003
Actuarial value of assets	\$ 2,934,270	\$ 2,595,866	\$ 2,280,924
Actuarial Accrued Liability (AAL)			
(entry age normal)	\$ 5,454,398	\$ 4,869,915	\$ 3,988,670
Unfunded AAL (UAAL)	\$ 2,520,128	\$ 2,274,049	\$ 1,707,746
Funded ratio	54%	53%	57%
Covered payroll	\$ 1,787,325	\$ 1,804,801	\$ 1,611,081
UAAL as a percentage of covered payroll	141%	126%	106%

Note 11 - Postemployment Benefits

The Township provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, eight retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with participants paying \$125 to cover spouses and 100 percent of dependent care cost. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$81,000.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 12 - Joint Ventures

The Township is a member of the Downriver Recreation Commission, which provides recreational services to the residents of the Township and the City of Algonac. The participating communities provide annual funding for its operations. During the current year, the Township contributed \$47,500 for its operations. The Township does not have an equity interest in the Commission. Complete financial statements for the Commission can be obtained from the administrative offices at Algonquin Junior High School, 9185 Marsh Road, Algonac, MI 48001. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future.

Required Supplemental Information

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 388,569	\$ 388,569	\$ 407,467	\$ 18,898
Licenses and permits	127,350	127,350	108,333	(19,017)
Intergovernmental revenue:				
State sources	661,500	661,500	674,147	12,647
Local sources	37,000	37,000	38,826	1,826
Grant revenue	-	-	20,000	20,000
Charges for services	104,000	104,000	93,396	(10,604)
Investment income	80,570	80,570	119,770	39,200
Special and maintenance assessment	22,075	22,075	29,690	7,615
Other	10,000	10,000	32,623	22,623
Total revenue	1,431,064	1,431,064	1,524,252	93,188
Expenditures				
Salaries:				
Supervisor	40,000	40,000	40,000	-
Clerk	53,040	53,040	53,040	-
Treasurer	50,960	50,960	50,960	-
Permanent employees	383,513	383,513	384,142	(629)
Fringe benefits	200,500	200,500	211,833	(11,333)
Township Board	12,000	12,000	6,890	5,110
Recreation	56,750	56,750	49,250	7,500
Board of Review	5,000	5,000	3,510	1,490
Commission fees	14,000	14,000	15,146	(1,146)
Elections	22,000	22,000	2,201	19,799
Office supplies	11,500	11,500	12,856	(1,356)
Postage	23,000	23,000	22,839	161
Gasoline and oil	2,000	2,000	2,355	(355)
Legal fees	20,000	20,000	8,662	11,338
Accounting and auditing fees	45,000	45,000	50,455	(5,455)
Consultant fees	12,000	12,000	5,475	6,525
Planning fees	15,000	15,000	14,425	575
Data processing	35,000	35,000	18,889	16,111
Telephone	10,500	10,500	9,261	1,239
Transportation	2,800	2,800	2,163	637
Advertising and publications	15,500	15,500	14,566	934
General and workers' compensation insurance	46,950	46,950	41,994	4,956

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Utilities	\$ 28,700	\$ 28,700	\$ 31,417	\$ (2,717)
Property maintenance	16,500	16,500	24,825	(8,325)
County road maintenance	168,000	168,000	167,345	655
Special assessment projects	3,000	3,000	5,175	(2,175)
Memberships and dues	9,000	9,000	8,003	997
Education and training	5,000	5,000	3,682	1,318
Transfer to library	17,500	17,500	15,000	2,500
Equipment rental	10,000	10,000	10,346	(346)
Equipment	31,376	31,376	36,382	(5,006)
Miscellaneous	7,800	7,800	84,159	(76,359)
Inspection fees	52,000	52,000	47,134	4,866
Transfers out	-	60,000	60,000	-
Total expenditures	<u>1,425,889</u>	<u>1,485,889</u>	<u>1,514,380</u>	<u>(28,491)</u>
Excess of Revenue Over (Under)				
Expenditures	5,175	(54,825)	9,872	64,697
Fund Balance - Beginning of year	<u>2,732,494</u>	<u>2,732,494</u>	<u>2,732,494</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,737,669</u>	<u>\$ 2,677,669</u>	<u>\$ 2,742,366</u>	<u>\$ 64,697</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

	Clay Township Police Fund			Variance with
	Original	Amended		Amended
	Budget	Budget	Actual	Budget
Revenue				
Property taxes	\$ 1,770,698	\$ 1,770,698	\$ 1,786,408	\$ 15,710
Liquor license fee	9,200	9,200	9,629	429
Fines	20,500	20,500	18,649	(1,851)
Police reports	1,000	1,000	1,155	155
Dispatch fees	16,700	16,700	16,700	-
State training grant	38,500	38,500	42,959	4,459
Investment income	500	500	11,646	11,146
Other	33,950	33,950	29,624	(4,326)
Total revenue	1,891,048	1,891,048	1,916,770	25,722
Expenditures				
Salaries and fringes	1,633,724	1,633,724	1,711,370	(77,646)
Legal fees	27,000	27,000	18,395	8,605
Insurance	82,500	82,500	66,721	15,779
Facility	23,000	23,000	23,997	(997)
Vehicles, equipment operation, and maintenance	43,250	43,250	49,451	(6,201)
Capital outlay	2,000	2,000	142	1,858
Other administrative fees	79,574	79,574	50,839	28,735
Total expenditures	1,891,048	1,891,048	1,920,915	(29,867)
Excess of Expenditures Over Revenue	-	-	(4,145)	(4,145)
Fund Balance - Beginning of year	176,721	176,721	176,721	-
Fund Balance - End of year	<u>\$ 176,721</u>	<u>\$ 176,721</u>	<u>\$ 172,576</u>	<u>\$ (4,145)</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Mainland Fire Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 389,950	\$ 389,950	\$ 394,833	\$ 4,883
Investment income	2,500	2,500	7,561	5,061
Other	17,500	17,500	18,303	803
Total revenue	409,950	409,950	420,697	10,747
Expenditures				
Wages and fringes	140,737	140,737	136,531	4,206
Other current services	119,485	119,485	95,349	24,136
Capital outlay	43,028	43,028	18,105	24,923
Debt service	106,700	106,700	106,701	(1)
Total expenditures	409,950	409,950	356,686	53,264
Excess of Revenue Over Expenditures	-	-	64,011	64,011
Fund Balances - Beginning of year	114,806	114,806	114,806	-
Fund Balances - End of year	<u>\$ 114,806</u>	<u>\$ 114,806</u>	<u>\$ 178,817</u>	<u>\$ 64,011</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Rubbish Collection Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Investment income	\$ 125	\$ 125	\$ 330	\$ 205
Special assessment	497,028	497,028	499,162	2,134
Other	2,500	2,500	2,087	(413)
Total revenue	499,653	499,653	501,579	1,926
Expenditures				
Rubbish contract	490,245	490,245	486,951	3,294
Refund and other	10,500	10,500	2,109	8,391
Total expenditures	500,745	500,745	489,060	11,685
Excess of Revenue Over (Under) Expenditures	(1,092)	(1,092)	12,519	13,611
Fund Balances - Beginning of year	32,883	32,883	32,883	-
Fund Balances - End of year	<u>\$ 31,791</u>	<u>\$ 31,791</u>	<u>\$ 45,402</u>	<u>\$ 13,611</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Harsen's Island Fire Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Property taxes	\$ 192,660	\$ 192,660	\$ 192,646	\$ (14)
Investment income	450	450	1,461	1,011
Other	5,980	5,980	4,559	(1,421)
Total revenue	199,090	199,090	198,666	(424)
Expenditures - Current				
Harsen's Island Fire	137,210	137,210	118,767	18,443
Debt service	61,880	61,880	62,121	(241)
Total expenditures	199,090	199,090	180,888	18,202
Excess of Revenue Over Expenditures	-	-	17,778	17,778
Fund Balances - Beginning of year	29,306	29,306	29,306	-
Fund Balances - End of year	<u>\$ 29,306</u>	<u>\$ 29,306</u>	<u>\$ 47,084</u>	<u>\$ 17,778</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted on an activity basis.

Other Supplemental Information

Township of Clay

	Nonmajor Special Revenue Funds				
	D.A.R.E.	Drug Enforcement	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Assets					
Cash and investments	\$ 631	\$ 32,347	\$ 5,121	\$ -	\$ 1,372
Special assessment receivable and other	-	-	-	-	-
Due from other funds	-	-	-	31,169	-
Total assets	<u>\$ 631</u>	<u>\$ 32,347</u>	<u>\$ 5,121</u>	<u>\$ 31,169</u>	<u>\$ 1,372</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 13	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	13	-
Fund Balances - Unreserved	<u>631</u>	<u>32,347</u>	<u>5,121</u>	<u>31,156</u>	<u>1,372</u>
Total liabilities and fund balances	<u>\$ 631</u>	<u>\$ 32,347</u>	<u>\$ 5,121</u>	<u>\$ 31,169</u>	<u>\$ 1,372</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Nonmajor Special Revenue Funds			Capital Project Fund	
South Channel Lights	Road Maintenance	Explorer Program	Colony Road Assessment	Total Nonmajor Governmental Funds
\$ -	\$ 43,804	\$ 1,023	\$ 580,662	\$ 664,960
1,692	-	-	348,798	350,490
-	-	-	-	31,169
<u>\$ 1,692</u>	<u>\$ 43,804</u>	<u>\$ 1,023</u>	<u>\$ 929,460</u>	<u>\$ 1,046,619</u>
\$ 1,528	\$ -	\$ -	\$ -	\$ 1,541
164	-	-	-	164
-	-	-	348,798	348,798
1,692	-	-	348,798	350,503
-	43,804	1,023	580,662	696,116
<u>\$ 1,692</u>	<u>\$ 43,804</u>	<u>\$ 1,023</u>	<u>\$ 929,460</u>	<u>\$ 1,046,619</u>

Township of Clay

	Nonmajor Special Revenue Funds				
	D.A.R.E.	Drug Enforcement	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Revenue					
Property taxes	\$ -	\$ -	\$ 5,195	\$ -	\$ -
Charges for services	-	-	-	33,347	-
State grant	-	-	-	-	-
Investment income (loss)	4	236	57	(698)	-
Special assessments	-	-	-	-	1,259
Other	550	33,445	-	-	-
Total revenue	554	33,681	5,252	32,649	1,259
Expenditures					
Current:					
Drug enforcement	-	5,923	-	-	-
Oaklawn Cemetery	-	-	-	37,362	-
Special lighting	-	-	-	-	1,259
Road maintenance	-	-	-	-	-
Russell Island Fire	-	-	3,713	-	-
South Channel Lights	-	-	-	-	-
Debt service	-	-	-	43,325	-
Total expenditures	-	5,923	3,713	80,687	1,259
Excess of Revenue Over (Under)					
Expenditures	554	27,758	1,539	(48,038)	-
Other Financing Sources - Transfers in	-	-	-	60,000	-
Net Change in Fund Balances	554	27,758	1,539	11,962	-
Fund Balances - Beginning of year	77	4,589	3,582	19,194	1,372
Fund Balances - End of year	<u>\$ 631</u>	<u>\$ 32,347</u>	<u>\$ 5,121</u>	<u>\$ 31,156</u>	<u>\$ 1,372</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Nonmajor Special Revenue Funds			Capital Project Fund	
South Channel Lights	Road Maintenance	Explorer Program	Colony Road Assessment	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 5,195
-	-	-	-	33,347
181,123	-	-	-	181,123
-	-	-	33,565	33,164
-	35,943	-	58,555	95,757
4,501	-	-	-	38,496
185,624	35,943	-	92,120	387,082
-	-	-	-	5,923
-	-	-	-	37,362
-	-	-	-	1,259
-	35,376	-	-	35,376
-	-	-	-	3,713
185,624	-	-	-	185,624
-	-	-	124,562	167,887
185,624	35,376	-	124,562	437,144
-	567	-	(32,442)	(50,062)
-	-	-	-	60,000
-	567	-	(32,442)	9,938
-	43,237	1,023	613,104	686,178
<u>\$ -</u>	<u>\$ 43,804</u>	<u>\$ 1,023</u>	<u>\$ 580,662</u>	<u>\$ 696,116</u>



Plante & Moran, PLLC
River Ridge Corporate Center
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

August 23, 2006

To the Board of Trustees
Clay Township
4710 Pointe Tremble Rd.
Algonac, MI 48001

Dear Board Members:

We recently completed our audit of the basic financial statements of Clay Township for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

General Fund

During the year ended June 30, 2006, the General Fund's revenue exceeded expenditures by nearly \$70,000 before transfers out to other funds. This represents a significant improvement over the prior year, during which revenue fell short of expenditures by more than \$200,000. The positive current year results are due primarily to an increase in investment income combined with reductions in expenditures. These reductions were accomplished in part through efficiencies gained with the Township's new accounting system, such as eliminating the need for an outside service to process payroll, and reductions in staff through early retirement packages. We encourage the Township to continue to closely monitor expenditures and investment activity in order to maintain adequate fund balance reserves. This will aid the Township in addressing unforeseen circumstances without immediately affecting the level of services provided and gives the Township time to work out any financial challenges.

State-shared Revenue

As you are aware, the continuing budgetary challenges faced by the State impact the Township through its revenue-sharing payments, which account for approximately 44 percent of the Township's total General Fund revenue. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes in the State's revenue structure. At this time, revenue-sharing payments for fiscal year 2007 are anticipated to be approximately equal to the 2006 amounts.

A member of



A worldwide association of independent accounting firms

The table below details the state-shared revenue for the Township over the past seven years broken out by statutory and constitutional portions. In addition, it calculates the total decrease in state shared-revenue experienced by the Township compared to the Township's fiscal year 2000. It is important to recognize that the authority for the statutory portion of revenue sharing terminates at September 30, 2007 and we have not heard any significant discussion in Lansing regarding plans for renewal. However, if the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), it would not significantly impact the Township's total state-shared revenue, as the Township did not receive any statutory payments in the year ended June 30, 2006.

<u>Township's Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Increase (Decrease) from 2000</u>
2000	\$ 122,507	\$ 600,730	\$ 723,237	\$ -
2001	145,253	637,370	782,623	59,386
2002	133,613	643,863	777,476	54,239
2003	105,734	654,764	760,498	37,261
2004	35,848	647,652	683,500	(39,737)
2005	12,943	663,107	676,050	(47,187)
2006	-	674,147	674,147	(49,090)

Oaklawn Cemetery Fund

The Oaklawn Cemetery Fund's total expenditures exceeded its revenue by nearly \$50,000 in the current year. Principal and interest payments on the mausoleum bonds alone totaled approximately \$43,000, while revenue from user charges was only \$33,000. Without the \$60,000 transfer made from the General Fund, the Oakland Cemetery Fund would have had a deficit in fund balance at June 30, 2006. As you are aware, the fiscal health of the Oakland Cemetery Fund is heavily reliant on the number of mausoleum slots sold during the year; without an increase in this revenue source, it is likely that contributions from the General Fund will continue to be required in order to avoid a fund balance deficit. We again recommend that the Township examine the operations of the Oakland Cemetery Fund and perform a three- to five-year projection of the operating activities to identify opportunities to reduce expenditures and increase income in order to improve the solvency of this fund.

Water and Sewer Funds

Included below is condensed financial information for the Water Fund taken from the Township's audited financial reports for the years indicated:

Years Ended June 30	2002	2003	2004	2005	2006
Cash flows from operating	\$ 38,697	\$ (69,254)	\$ (43,970)	\$ (190,890)	\$ (42,965)
Cash flows from capital	1,200,257	(320,903)	(1,036,021)	(552,482)	(660,901)
Cash flows from investing	379,462	121,122	230,321	142,813	209,080
Net change in cash	1,618,416	(269,035)	(849,670)	(600,559)	(494,786)
Cash beginning	2,191,639	3,810,055	3,541,020	2,691,350	2,090,791
Cash ending	<u>\$3,810,055</u>	<u>\$3,541,020</u>	<u>\$2,691,350</u>	<u>\$2,090,791</u>	<u>\$1,596,005</u>

As indicated above, the Water Fund's cash position has deteriorated significantly over the five years presented. This is due primarily to the annual debt service requirements (included in "cash flows from capital" along with the collections of special assessments and debt service charges) combined with negative cash flows from operations. Cash flows generated by investments are positive, but they are not enough to offset the negative cash flows from the other categories. Although the principal and interest requirements will decrease over the remaining lives of the debt, these payments will continue to exceed \$600,000 annually through the year 2020. At the current rate of decline, it is foreseeable that the Water Fund could be in a cash deficit within the next three to five years.

Though not included in this letter, analysis of the Sewer Fund's historical operations shows similar concerns to those noted for the Water Fund.

While the Township has acknowledged the negative trends noted above and responded by adjusting water and sewer rates, we recommend that the Township perform a detailed analysis of the future expected revenues, expenditures, and cash flow items for the Water and Sewer Funds in the form of a financial forecast of the next 5 to 10 years. This plan should be designed to assist the board to evaluate the adequacy of current rate increases, plan for future rate increases, identify potential areas for cost savings, and ensure that the funds continue to maintain their contractually required cash reserves. We would be happy to assist the Township in such an endeavor.

Accounting System Conversion

As you are aware, the Township undertook the significant task of implementing a new accounting and general ledger system. During the course of our audit, we noted increased automation of many accounting functions and improved linkage between subsidiary modules and the general ledger accounts. We compliment Township personnel on the implementation of the new system and the improvements in reporting and recordkeeping that resulted. As the various departments become more familiar with the capabilities of the new system, we encourage them to continue to look for ways to increase efficiency and eliminate manual processes, such as the tracking of vacation and sick time and the preparation of month-end bank reconciliation.

Downriver Recreation Commission

It is our understanding that the City of Algonac intends to withdraw from the Downriver Recreation Commission effective June 30, 2007. We recommend that the Township and the other participating members review the interlocal agreement governing the Commission to ensure all parties have an understanding of the financial implications of the withdrawal and to determine its impact on the future operations and structure of the Commission.

Telecommunications Act Changes

Changes were made by the Legislature to restrict the ability of local governments to engage in telecommunications activities. Additionally, threats exist at both the federal and state levels to restrict or eliminate the ability of local governments to regulate and franchise cable television, which would impact franchise fees received by local governments. Though cable franchise fees are not a significant source of revenue for the Township (such fees totaled approximately \$44,000 in 2006), we encourage the board to monitor developments closely given the impact that even small reductions in revenue will have on the Township's budget.

Municipal Finance Act Revisions

As a reminder, the Municipal Finance Act was amended several years ago, requiring communities to submit a filing once a year with the Michigan Department of Treasury in replacement of the old 10-day "exemption from prior approval" process. This filing serves as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end and is good for one year thereafter. The Township should also consider the need to file a qualifying statement for the Downtown Development Authority.

To the Board of Trustees
Clay Township

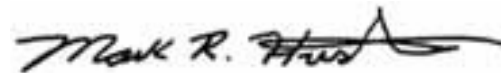
5

August 23, 2006

We would like to thank Connie Turner and Kathy Boughner, as well as all of the Clay Township personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Mark R. Hurst". The signature is written in a cursive style with a prominent, sweeping flourish at the end.

Mark R. Hurst

A handwritten signature in black ink that reads "Lisa C. Manetta". The signature is written in a cursive style with a large, elegant loop for the letter 'L'.

Lisa C. Manetta